



PROVISIONAL INSTITUTIONS OF SELF-GOVERNMENT
MINISTRY OF ECONOMY AND FINANCE
TAX ADMINISTRATION OF KOSOVO



The Rights and
Obligations
of Businesses
Operating
in Kosovo

Introduction:

The goal of this brochure is to help taxpayers (businesses) who want to run their economic activities in Kosovo about their tax rights and obligations and other related obligations. This brochure it is not a legal document and is designed to be used as manual only. We have provided here only some simple explanations, and for more detailed information it should be contacted the Tax Administration of Kosovo through addresses and telephone numbers stated in the end of the brochure.

Business registration in Kosovo

Businesses operating in Kosovo must be registered with Business Registration Office under the Regulation 2001/6.

The object of this regulation is creation of opportunities for regular establishment of profitable business organizations in Kosovo; defining of ownership, responsibilities and powers on decision making in relation to them; ways, means and procedures their bankruptcy and liquidation; rights and liabilities they have; providing powers and authorizations to responsible persons and relevant organizations (and their followers) to apply the provisions of this regulation. This regulation regulates profitable business organizations only.

Business Taxes

For businesses, there are a number of taxes that can apply depending on the activity of the business. Applicable taxes in Kosovo are:

1. Presumptive Tax
2. Value Added Tax
3. Profit Tax
4. Personal Income Tax

Presumptive Tax – has started to be implemented on 20 May 2000 (regulation No. 2000/29, “On establishment of Presumptive Tax”). It has to be paid a flat rate for the first 7,500 euro each quarter, plus 3% of gross sales over €7,500 per quarter.

The basis for the Presumptive Tax is currently divided between ‘small’ and ‘large’ taxpayers. A small taxpayer is defined as a business with gross sales/receipts less than €7,500 per quarter and large taxpayers include all those businesses that have gross sales greater than €7,500 per quarter. For ‘small’ taxpayers a standard amount (flat quota) of tax depending on business activity and location is required; while for ‘large’ taxpayers the standard amount is due as well as 3% of gross sales for any amount greater than €7,500 per quarter.

Presumptive Tax (flat quota)

Quarterly Payments	Prishtina	Prizren, Gjakovë, Ferizaj	Gjilan, Peja,	Other
Businesses, Service Providers, Professionals, and Tradesmen	€200.00		€150.00	€100.00
Entertainment	€200.00		€150.00	€100.00
Transport	€125.00		€100.00	€75.00
Moving Traders, Artisans, and Other Low-Income Activity	€37.50		€37.50	€37.50

Profit Tax – Since 1 April 2002 (Regulation No. 2002/3) “On Profit Tax in Kosovo”) has started to be implemented profit tax and taxpayers liable to it are:

- Business organizations with annual sales over 100,000.00 €
- Business organization with assets over 50,000.00 €
- Permanent establishment of non-residents persons
- Non-governmental Organizations (NGO)
- Businesses that opt to pay profit tax and not presumptive tax.

Profit Tax is most favorable tax because it is taxing actual profit (gross sales minus allowable expenses). This means that if the business has loss during the year, and then there is no tax for that year, even the losses may be carried forward on the next year by reducing the tax liability for next year. Profit tax must be paid in percentage of 20% on taxpayer’s taxable profit and the insurance companies must pay 7% of gross premiums.

Presumptive Tax vs. Profit Tax

A basic comparison of the tax liability can be calculated for an example of a contractor or producer located in Peja. The Annual Gross Sales/Receipts in 2002 are €90,000 and the allowable expenses (defined under the Profit Tax regulation) are €80,000.

	Gross Sales (€)	Profit Tax (€)	Presumptive Tax	
			Standard (€)	3% > €7,500
Quarter 1	8,000	2,000	150	15
Quarter 2	30,000		150	675
Quarter 3	43,000		150	1065
Quarter 4	9,000		150	45
Allowable Expenses	80,000		Total: 2,400	
Profit	10,000			

The Profit Taxes paid would be €2,000 (€10,000 times 20%). However, under Presumptive Taxes the tax due would be €600 (€150 /quarter for Peja business) plus €1,800 (3% of the amount over €7,500 per quarter), a total tax liability of €2,400. Clearly, though not required of businesses with sales less than €100,000, the most economical tax choice in this example would be to switch to the Profit Tax rather than continuing to pay the Presumptive Tax. The regulation requires that businesses file financial statements to be eligible to pay Profit Tax.

Value Added Tax

Has started from July 1st 2001 (Regulation No. 2001/11 “On Value added Tax”. Since August 1st 2002 this regulation has been amended with Regulation 2002/17, (15% on imports/intra FRY inflows and domestic taxable supplies of goods and services). If annual sales over €50,000 it enables registered taxable persons with turnover over 50,000 euro (and those who are below the threshold but do elect to be VAT Filers) to get an input tax credit for the VAT paid on imports/intra FRY inflows or domestic purchases.

In addition to supplies with tax rate 15% there are supplies of with tax rate 0% and exempt supplies.

Form September 1st 2004 it is done an additional change, Regulation 2004/35 in relation to agriculture inputs and capital goods used in agriculture. Under Section 10.1 the zero rate supplies are:

- supplies of goods in the form of water for the irrigation of farming lands, and
- imports, intra-FRY inflows and supplies of goods attached to the annex of this regulation.

Procedure for claiming a VAT Rebate

A Rebate can be claimed for the VAT paid on imports and intra FRY inflows only. There are two categories of persons that are entitled to a rebate:

Contractors of UNMIK, UN Specialized Agencies, World Bank, KFOR, Donor Agencies of Foreign Governments and International Intergovernmental Organizations, and

Non Governmental Organizations with Public Benefit Status.

Procedure for VAT Excluded Purchases

"Exclusion" means an import, intra FRY inflow or domestic purchase for which no value added tax is payable by the entitled bodies. The bodies entitled to Exclusions are the following:

- Liaison Offices and diplomatic representatives, United Nations or its organs including UNMIK, KFOR, the World Bank and International Inter-Governmental Organizations.
- UNMIK and/or the Administrative Departments of the Joint Interim Administrative Structure, if the imports, intra-FRY inflows and domestic purchases are funded from the proceeds of grants given to UNMIK and/or JIAS Departments by governments, government agencies, governmental or non-governmental organizations in support of reconstruction or humanitarian programs.
- Representatives of the organizations stated above, seeking to clear the goods at Border Crossing Points or Administrative Boundary Lines shall produce to Customs Service any document that shows that the recipient of the shipment of goods is entitled to such exclusion.

Procedure for VAT Deferment on Capital Goods

A 6 months deferment of VAT on Capital Goods shall be allowed to newly established businesses, on import or intra-FRY inflow of machinery and equipment. Machinery and equipment may be new or used and shall be used for the production of other goods or services. In order to benefit from this deferment, the new business shall apply to Tax Administration by filling out an application form. The applicant must attach to the application a copy of the business plan, a copy of the contract with the vendor of the machinery or equipment, a bank guarantee to cover the VAT portion, a plan of the plant or factory, the construction permit given by the authorized agencies.

A written approval or refusal shall be issued by Tax Administration to the applicant and a copy shall be forwarded to Customs Service before the importation or intra FRY inflow occurs. The new business will give prior notice to the Customs Service of the anticipated date and location of entry of the goods into Kosovo. At time of importation/inflow, the Customs Service shall request from the owner of the goods the letter of approval issued by Tax Administration and verify that it corresponds to the letter of approval forwarded to Customs by Tax Administration. Customs Service shall calculate the deferred amount of VAT for the capital good and write "Deferred" beside the amount of VAT on the Customs Declaration. Customs Service shall notify Tax Administration of the deferment at time of arrival.

The taxable person has 6 months to set off the VAT against the output tax. If during the six month period the taxable person starts supplying taxable goods and services, the taxable person shall prepare a tax invoice with the value of the capital good and the respective value added

tax. The data on the tax invoice shall correspond to the data on the customs declaration. The data of the tax invoice shall be registered in both, the sales and the purchase book, zeroing the VAT for the capital good and the output VAT charged and collected from the buyers shall be remitted to Kosovo Consolidated Budget (of course after deducting any potential input VAT on other purchases).

If at the end of the 6 months period the Value Added Tax is not set off, Tax Administration shall request the bank to cover the difference from the guarantee.

Value Added Tax is not applicable to the following purchases

- (a) Import of a traveler’s personal effects as permitted under the applicable customs provisions;
- (b) Import of tourist duty-free goods as permitted under the applicable customs provisions;
- (c) Imports, intra-FRY inflows or supplies funded from the proceeds of grants made to UNMIK or the Administrative Departments of the Joint Interim Administrative Structure by governments, government agencies, governmental or non-governmental organizations in support of humanitarian and reconstruction programs and projects in Kosovo;
- (d) Imports or intra-FRY inflows made by, or supplies made to, diplomatic representatives or liaison offices in accordance with UNMIK Regulation No. 2000/42 of 10 July 2000 on the Establishment and Functioning of Liaison Offices in Kosovo;
- (e) Imports or intra-FRY inflows made by, or supplies made to, the United Nations or any of its organs including UNMIK (as defined in UNMIK Regulation No. 2000/47 of 18 August 2000 on the Status, Privileges and Immunities of KFOR and UNMIK and Their Personnel in Kosovo), the specialized agencies of the United Nations, KFOR, the World Bank and international inter-governmental organizations;
- (f) Imports or intra-FRY inflows of medicines, medical services or medical instruments; and
- (g) A fine or penalty levied by UNMIK authorities.

Personal Income Tax

As of April 1, 2002 individuals are now required to pay a wage tax, with the first collection completed in May 2002. The tax is graduated based on income level. The assessment is done monthly and then re-assessed on an annual basis. As of January 1st 2003 tax rates and income brackets were changed and now they are as follows:

Table 4: Income Brackets and Tax Rates

Monthly Income	Tax	Annual Income	Tax
Up to 80 euro	0%	Up to 960 euro	0%
80.01 – 250 euro	5%	960.01 –3,000 euro	5%
250.01-450 euro	10%	3,000.01-5,400 euro	10%
Over €450	20%	Over 5,400 euro	20%

Other obligations that businesses may be subject to

Individual Savings Pension Scheme for individuals. In the initial phase it was applicable mostly for budgetary employees and for Public and Socially Owned Enterprises with more than 500 employees. By August 2003 the scheme was expanded to cover all employees and self-

employed persons. The obligatory contribution is 10% of the gross wage (5% to be paid by the employer and 5% by the employee). The share of the employer is not included in the gross income while the share of the employee is deductible for Personal Income Tax purposes. Both employer and employee may contribute voluntarily up to 15% (15% employer and up to 15% employee).

Property Tax – This type of tax has started in 2002. Survey and registration of properties is done on 2001.

This tax is established to be collected by Municipal Assemblies as local self-governing authorities, with intention that with collection of this tax, citizens have better services, but main goal is financial independence of municipal budgets from central government, respectively Kosovo Consolidated Budget.

To implement the program of property tax, the legislation is drafted on the central level. Municipalities are obliged to issue their regulations which have to be harmonized with central level.

Municipal Assembly of each municipality defines tax rates on property on annual basis, between 0.05% to 1% of property market value.

The tax rates vary between the following property categories:

- **Property needed for dwelling purposes**
- **Dwelling property**
- **Commercial property**
- **Industrial property**
- **Agriculture property**
- **Immovable abandoned property and uninhabited buildings**

The basis of tax for immovable property will be the property market value defined in accordance with standards and procedures defined under the instructions issued by MFE.

Subject to property tax is, firstly, the owner of property, is the owner of property cannot be defined or it cannot be found, the taxpayer is the physical or legal person who legally is using or keeping the immovable property.

In addition to buildings taxed under Regulation No. 2003/29 are envisaged the buildings exempt from this tax.

The following institutions and organizations shall be exempt from property tax in respect of property they own or use:

- (a) The Provisional Institutions of Self-Government;
- (b) The United Nations or any of its organs including UNMIK, and the specialized agencies of the United Nations;
- (c) Kosovo Multinational Force (KFOR);
- (d) Foreign governments, foreign liaison offices, governmental agencies, inter-governmental organizations, or foreign donor agencies carrying on humanitarian aid, reconstruction work, civil administration, or technical assistance within Kosovo;
- (e) Non-governmental organizations with public benefit status pursuant to UNMIK Regulation No. 1999/22 of 15 November 1999 on the Registration and Operation of Non-Governmental Organizations in Kosovo; and
- (f) Religious institutions, approved by a municipality in coordination with the Tax Administration, in respect of property used for religious purposes.

The revenue collected from the property tax shall be allocated for the account of the municipality concerned and shall be used by it in accordance with the Law on Public Financial Management and Accountability.

General Customs Explanations

Under the regulations and Customs Code in force it is defined that goods with a destination Kosovo (with some exceptions) are subject to 10 % customs duty.

- Goods with originating from Macedonia are not subject to 10 % customs duty but are subject customs duty of 1%, this is under the UNMIK Administrative Direction 2001/7
- goods originating from Serbia and Monte Negro are not subject to customs duties but are subject to VAT only, provided on UNMIK Regulation 2001/11
- Goods originating from Albania and included on the Agreement for Free Market also are not subject to customs duties.
- Under the UNMIK Regulation 2001/11, section 2 paragraph 2.2 it is provided that value added tax will be collected by 15%, except 0 rated supplies.
- Under the UNMIK Regulation 2002/16 goods subject to excise taxes are as follows:

Description of goods	Code in Harmonized System	Tax Rate
Coffee	0901	Ad valorem 30%
Soft drinks	2202	Ad valorem 10%
Wine of fresh grapes, other than 2009	2204, 2205	0.20 euro per liter
Other fermented beverages	2206	0.15 euro per liter
Ethyl alcohol of strength of 80%	2207	1 euro per liter of alcohol
Ethyl alcohol of strength less than 80% ;	2208	1 euro per liter of alcohol
Cigarettes	2402	2 euro per 1000 cigarettes
Cigars, cigarillos, and other manufactured tobacco	2402 2403	Ad valorem 50%
Gasoline	2710 00 26, 2710 00 27, 2710 00 29, 2710 00 32, 2710 00 34, 2710 00 36,	30 cent per liter
Gas Oil	2710 00 66, 2710 00 68	27.5 cent per liter
Diesel for motor engines (D1 +D2)	2710 00 3100	27.5 cent per liter
Kerosene	2710 00 51, 2710 00 55	27.5 cent per liter
Heating Oil	2710004100; 271004900	27.5 cent per liter
Vehicles	8703	Ad valorem 20% + 500 euro each

Goods Exempt from customs Duties

- 1) Pharmaceutical products
- 2) Medical and surgical instruments and apparatus
- 3) Postage stamp and securities classified under chapter 4907 of customs harmonized tariff
- 4) Agricultural fertilizers classified under chapter 31 of customs harmonized tariff
- 5) goods imported by UNMIK, KFOR, UNHSR, ICRC, Red Cross and Red Crescent Associations, and NGOs registered with UNMIK with a public benefit status
- 6) goods imported by foreign diplomatic and consular missions for their official use an
- 7) goods financed by donations to UNMIK by governments, governmental agencies, governmental and non-governmental organizations for assistance of humanitarian programs on reconstruction and projects in Kosovo.

Personal Effects

Under the Administrative Instruction, personal effects of non-residents will be allowed to enter temporary in Kosovo. With exemption of items with specific value, these personal effects will be allowed to enter without any required documentation or guarantee. UNMIK competent authorities responsible for fiscal administration will issue an administrative instruction to specify the value of personal effects for which is required relevant documentation or guarantee.

Expected Income Tax Changes

The current structure of income taxes in Kosovo is proposed to be changed from 1 January 2005. From that date, there will be two income taxes as follows:

A “**Corporate Income Tax**” will apply to all non-individual legal persons. This is similar to the existing Profit Tax in that:

- it applies to companies, public and socially owned enterprises, NGOs and non-residents with a “permanent establishment” in Kosovo
- it applies to income from business activities, rents, interest, dividends, income from intangible property and income from capital gains/losses
- it applies at a flat 20% tax rate on net profits calculated according to generally accepted accounting principles with special deduction provisions (including a special additional 5% depreciation allowance for plant and machinery investments and a deduction for charitable contributions).

Organizations with over 50,000 euro annual turnover are required to keep full financial records and to pay tax on their calculated taxable profits. Organizations with lower turnovers can opt to similarly pay on a taxable profit basis, but once they have made that option they cannot change.

Unlike the current Profit Tax, but incorporating the principles of the current Presumptive Tax, organizations with annual turnovers of less than 50,000 euro can instead pay tax “presumptively” based on their gross receipts. In such cases, the tax rate on gross receipts will be 3% (for manufacturing and retail trade businesses), 5% (for service industries), or 16% (for rental income). The presumptive tax allowance for different localities will no longer apply.

The existing 15% “final” withholding tax on interest, dividends and royalties derived by non-residents will be replaced by 20% withholding taxes on interest, dividends and income from intangible property derived by both residents and non-residents. Note that in the case of certain non-residents the 20% tax rate will be reduced where there is a Double Tax Agreement in place. All Double Tax Agreements entered into by Yugoslavia prior to 1999 continue to apply in Kosovo as will a new Kosovo/Albania agreement which is due to come into effect on 1 January 2005.

Non-individual tenants who lease buildings will also be required to deduct a withholding tax on rents from rental payments owing to their landlords.

A “**Personal Income Tax**” will apply to all individuals, including non-corporate partners of partnerships who will be taxed on their share of partnership income. Unlike the existing Personal Income Tax which applies to wages only, the new law is comprehensive and will apply to wages, business and rental income earned by individuals (which is currently covered by the Presumptive Tax), interest, dividends, income from intangible property, lottery winnings and pension annuities (with capital gains/losses due to be taxed from 2010).

The graduated income tax scale with 0%, 5%, 10% and 20% income bands will remain the same as currently applies to income from wages, but will now apply to all taxable income earned.

Business and rental income taxpayers will be obliged to pay quarterly installments of tax based on their estimated or past taxable profit (and after allowing for certain deductions including a special additional 5% depreciation allowance for plant and machinery investments and a deduction for charitable contributions) where their annual turnover is over 50,000 euro. As for the Corporate Income Tax above, the same option to pay “presumptively” applies (in which case, the same rates as above apply).

New withholding taxes will be introduced on interest, dividends, lottery winnings, and income from intangible property, all of which will have a 20% flat rate. These tax rates will become final for taxpayers who do not wish to furnish an annual personal income tax declaration, but all taxpayers can do so particularly if they believe this will result in them receiving a refund.

For additional detailed information you may contact the Tax Administration of Kosovo Headquarters in Prishtina on Tel: 038/ 211-069, 038/2534-509, mob:044-210-482
E-mail address: Tax_info21@yahoo.com

Webpage: www.mfe-ks.org

Tax Administration regional offices you may contact on the following telephone numbers:

Prishtinë: 038-2534-514
Prizren: 029-44-901,029-42-989
Pejë : 039-32-124,039-32-091
Gjakovë: 0390-30-021,0390-30-019
Gjilan: 0280-26-967,0280-20-097
Mitrovicë: 028-30-059,028-30-058
Ferizaj: 0290-20-387,0290-27-306